ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

(Unaudited)

(In thousands of U.S. dollars)

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2005
(Unaudited)
(In thousands of U.S. dollars)

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ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars (in thousands)

	June 30, 2005 (Unaudited)	December 31, 2004 (**)
CURRENT ASSETS:		
Cash and cash equivalents	$ 53,855	$ 34,109
Short-term bank deposits	1,196	738
Trade receivables, (net of allowance for doubtful accounts in the amount of $2,890 and $3,064 as of June 30, 2005 and December 31, 2004, respectively)	189,599	214,816
Other receivables and prepaid expenses	54,055	*53,087
Inventories, net of advances	296,603	249,041
Total current assets	595,308	551,791
INVESTMENTS AND LONG-TERM RECEIVABLES:		
Investments in affiliated companies and a partnership	117,397	*47,873
Investments in other companies	11,745	11,745
Long-term bank deposits and trade receivables	1,595	2,102
Severance pay fund	81,241	82,998
	211,978	144,718
PROPERTY, PLANT AND EQUIPMENT, NET	252,990	244,288
INTANGIBLE ASSETS:		
Goodwill	33,716	33,706
Other intangible assets, net	60,301	62,281
	94,017	95,987
	$ 1,154,293	$ 1,036,784

* Restated (See Note 1B)

** Derived from the Company's 2004 audited financial statements

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars (in thousands, except share and per share data)

	June 30, 2005 (Unaudited)	December 31, 2004 (**)
CURRENT LIABILITIES:		
Short-term bank credit and loans	$ 8,581	$ 8,592
Current maturities of long-term loans	2,914	1,656
Trade payables	111,006	118,391
Other payables and accrued expenses	159,261	169,702
Customers advances and amounts in excess of costs incurred on contracts in progress	152,248	80,109
Total current liabilities	434,010	378,450
LONG-TERM LIABILITIES:		
Long-term loans	128,681	86,234
Advances from customers	19,099	10,320
Deferred income taxes	24,082	24,516
Accrued termination liability	97,381	100,740
	269,243	221,810
MINORITY INTERESTS	4,067	4,340
SHAREHOLDERS' EQUITY:		
Share capital		
Ordinary shares of New Israeli Shekels (NIS) 1 par value; Authorized 80,000,000 shares as of June 30, 2005 and December 31, 2004; Issued – 41,154,632 and 40,969,947 shares as of June 30, 2005 and December 31, 2004 respectively; Outstanding – 40,745,711 and 40,561,026 shares as of June 30, 2005 and December 31, 2004, respectively	11,590	11,548
Additional paid-in capital	276,461	274,432
Accumulated other comprehensive loss	(5,064)	*(4,742)
Retained earnings	168,307	*155,267
Treasury shares - 408,921 shares as of June 30, 2005 and December 31, 2004	(4,321)	(4,321)
	446,973	*432,184
	$ 1,154,293	$ 1,036,784

* Restated (See Note 1B)

** Derived from the Company's 2004 audited financial statements

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars (in thousands, except share and per share data)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	**2004	2005	**2004	2004
	(Unaudited)		(Unaudited)		(***)
Revenues	$ 474,470	$ 445,317	$ 243,782	$ 231,645	$ 939,925
Cost of revenues	346,821	328,839	177,695	171,759	689,626
Gross profit	127,649	116,478	66,087	59,886	250,299
Research and development costs, net	32,961	27,027	17,795	13,733	66,846
Marketing and selling expenses	34,386	35,160	17,740	18,662	69,912
General and administrative expenses	25,424	22,731	12,932	11,169	47,832
	92,771	84,918	48,467	43,564	184,590
Operating income	34,878	31,560	17,620	16,322	65,709
Financial expenses, net	(3,197)	(1,301)	(1,466)	(822)	(5,852)
Other income (expenses), net	(185)	(84)	(75)	(299)	770
Income before taxes on income	31,496	30,175	16,079	15,201	60,627
Taxes on income	8,043	7,779	4,056	3,704	15,219
	23,453	22,396	12,023	11,497	45,408
Equity in net earnings of affiliated companies and partnership	(127)	2,970	(1,168)	1,612	*6,645
Minority interests in losses (earnings) of subsidiaries	273	188	54	193	(180)
Net income	$ 23,599	$ 25,554	$ 10,909	$ 13,302	*$ 51,873
Earnings per share					
Basic net earnings per share	$ 0.58	$ 0.64	$ 0.27	$ 0.33	*$ 1.30
Diluted net earnings per share	$ 0.57	$ 0.63	$ 0.26	$ 0.33	* $ 1.26
Number of shares used in computation of basic net earnings per share	40,675	39,704	40,705	39,828	39,952
Number of shares used in computation of Diluted net earnings per share	41,617	40,805	41,617	40,892	41,041

* Restated (See Notes 1B)
** Restated (See Note 3)
*** Derived from the Company's 2004 audited financial statements

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars (in thousands, except share data)

	Number of outstanding shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Total shareholders' equity	Total comprehensive income (loss)
Balance as of January 1, 2004	39,337,204	$ 11,273	$ 259,033	$ (3,992)	$ 190,086	$ (4,321)	$ 452,079	
Exercise of options	1,223,822	275	10,985	-	-	-	11,260	
Cumulative effect of first time adoption of the fair value based method for stock based compensation expenses			(152)				(152)	
Tax benefit in respect of options exercised	-	-	1,179	-	-	-	1,179	
Stock based compensation	-	-	3,387	-	-	-	3,387	
Dividends paid	-	-	-	-	(86,692)	-	(86,692)	
Other comprehensive income (loss):								
Unrealized gains on derivative instruments	-	-	-	(299)	-	-	(299)	$ (299)
Foreign currency translation differences	-	-	-	450	-	-	450	450
Minimum pension liability	-	-	-	(901)	-	-	(901)	(901)
Net income	-	-	-	-	51,873	-	51,873	51,873
Total comprehensive income								$ 51,123
Balance as of December 31, 2004	40,561,026	$ 11,548	$ 274,432	$ (4,742)	$ 155,267	$ (4,321)	$ 432,184	
Exercise of options	184,685	42	1,545	-	-	-	1,587	
Tax benefit in respect of options exercised	-	-	484	-	-	-	484	
Dividends paid	-	-	-	-	(10,559)	-	(10,559)	
Other comprehensive income (loss):								
Unrealized gains on derivative instruments	-	-	-	293	-	-	293	$ 293
Foreign currency translation differences	-	-	-	(615)	-	-	(615)	(615)
Net income	-	-	-	-	23,599	-	23,599	23,599
Total comprehensive income								$23,277
Balance as of June 30, 2005 (Unaudited)	40,745,711	$ 11,590	$ 276,461	$ (5,064)	$ 168,307	$ (4,321)	$ 446,973	

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars (in thousands, except share data)

	Number of outstanding shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Total shareholders' equity	Total comprehensive income (loss)
Balance as of January 1, 2004	39,337,204	$11,273	$259,033	$(3,992)	$190,086	$(4,321)	$452,079	
Exercise of options	591,247	132	5,584	-	-	-	5,716	
Tax benefit in respect of options exercised	-	-	691	-	-	-	691	
Stock based compensation	-	-	1,845	-	-	-	1,845	
Dividends paid	-	-	-	-	(8,696)	-	(8,696)	
Other comprehensive income (loss):								
Unrealized gains on derivative instruments	-	-	-	428	-	-	428	$ 428
Foreign currency translation differences	-	-	-	(20)	-	-	(20)	(20)
Net income	-	-	-	-	25,554	-	25,554	25,554
Total comprehensive income								$24,448
Balance as of June 30, 2004 (Unaudited)	39,928,451	$ 11,405	$ 267,153	$ (3,584)	$ 206,944	$ (4,321)	$ 477,597	
Balance as of April 1, 2005 (Unaudited)	40,682,842	$ 11,576	$ 275,766	$ (4,705)	$ 162,661	$ (4,321)	$ 440,977	
Exercise of options	62,869	14	498	-	-	-	512	
Tax benefit in respect of options exercised	-	-	197	-	-	-	197	
Dividends paid	-	-	-	-	(5,263)	-	(5,263)	
Other comprehensive income (loss):								
Unrealized gains on derivative instruments				81			81	$ 81
Foreign currency translation differences				(440)			(440)	(440)
Net income	-	-	-	-	10,909	-	10,909	10,909
Total comprehensive income								$ 10,550
Balance as of June 30, 2005 (Unaudited)	40,745,711	$ 11,590	$ 276,461	$ (5,064)	$ 168,307	$ (4,321)	$ 446,973	

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars (in thousands, except share data)

	Number of outstanding shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Total shareholders' equity	Total comprehensive income (loss)
Balance as of April 1, 2004 (Unaudited)	39,718,313	$11,358	$263,919	$(3,942)	$198,010	$(4,321)	$465,025	
Exercise of options	210,138	47	2,032	-	-	-	2,079	
Tax benefit in respect of options exercised	-	-	280	-	-	-	280	
Amortization of deferred stock compensation	-	-	922	-	-	-	922	
Dividend paid	-	-	-	-	(4,369)	-	(4,369)	
Other comprehensive income (loss):								
Unrealized gains on derivative instruments				522	-	-	522	$ 522
Foreign currency translation differences	-	-	-	(164)	-	-	(164)	(164)
Net income	-	-	-	-	13,302	-	13,302	13,302
Total comprehensive income								$ 13,660
Balance as of June 30, 2004 (Unaudited)	39,928,451	$11,405	$ 267,153	$ (3,584)	$ 206,944	$ (4,321)	$ 477,597	

The accompanying notes are an integral part of the consolidated financial statements.

ELBIT SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars (in thousands)

	Six months ended June 30,		Year ended December 31,
	2005	2004	2004
	(Unaudited)		(***)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 23,599	$ 25,554	**$ 51,873
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,102	20,304	42,261
Stock based compensation	-	1,845	3,387
Deferred income taxes	(1,804)	1,653	153
Accrued severance pay, net	(1,725)	(833)	(2,304)
Loss (gain) on sale of property and equipment	(304)	16	143
Tax benefit in respect of options exercised	484	691	1,179
Minority interests in earnings (losses) of subsidiaries	(273)	(187)	180
Equity in net losses (earnings) of affiliated companies and partnership, net of dividend received (*)	4,265	681	**1,505
Changes in operating assets and liabilities:			
Decrease (increase) in short and long-term receivables and prepaid expenses	25,732	24,603	(16,871)
Decrease (increase) in inventories	(63,529)	(5,062)	2,932
Increase (decrease) in trade payables, other payables and accrued expenses	(21,262)	(5,216)	20,522
Increase (decrease) in advances received from customers	96,507	(7,308)	(18,535)
Settlement of royalties with the Office of the Chief Scientist	-	(1,247)	(3,714)
Other adjustments	45	(91)	(1,228)
Net cash provided by operating activities	85,837	55,403	81,483
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(30,017)	(26,262)	(53,008)
Acquisition of subsidiaries and businesses (Schedule A)	(318)	-	(2,315)
Investments in affiliated companies and subsidiaries	(74,782)	(250)	(18,391)
Proceeds from sale of property, plant and equipment	1,001	1,351	2,560
Proceeds from sale of investment	3,100	-	-
Investment in long-term bank deposits	(551)	(167)	(1,203)
Proceeds from sale of long-term bank deposits	945	317	1,507
Short-term bank deposits, net	(458)	125	(48)
Net cash used in investing activities	(101,080)	(24,886)	(70,898)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of options	1,587	5,716	11,260
Repayment of long-term bank loans	(51,652)	(12,222)	(35,826)
Receipt of long-term bank loans	95,500	-	58,410
Dividends paid	(10,559)	(8,696)	(86,692)
Change in short-term bank credit and loans, net	113	(1,135)	216
Net cash provided by (used in) financing activities	34,989	(16,337)	(52,632)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,746	14,180	(42,047)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	34,109	76,156	76,156
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 53,855	$ 90,336	$ 34,109
(*) Dividend received	$ 4,138	$ 3,651	$ 8,150

(**) Restated (See Notes 1B and 3)

(***) Derived from the Company's 2004 audited financial statements

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars (in thousands)

	Six months ended June 30,		Year ended December 31,
	2005	2004	2004
	(Unaudited)		(*)
SUPPLEMENTARY CASH FLOWS ACTIVITIES:			
Cash paid during the period for:			
Income taxes	$ 13,233	$ 6,614	$ 13,305
Interest	$ 3,193	$ 844	$ 3,122
SCHEDULE A:			
Subsidiaries and businesses acquired			
Estimated net fair value of assets acquired and liabilities assumed at the date of acquisition:			
Working capital, net (excluding cash and cash equivalents)	$ (3,281)	-	$ (707)
Property, plant and equipment	-	-	(10)
Goodwill, customer contracts and other intangible assets	(1,514)	-	(1,598)
Long-term liabilities – mainly advances from customers	4,477	-	-
	$ (318)	-	$ (2,315)

* Derived from the Company's 2004 audited financial statements

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 - GENERAL

A. The accompanying unaudited interim consolidated financial statements have been prepared in a condensed format as of June 30, 2005, and for the three and six months then ended in accordance with generally accepted accounting principles in the United States (U.S. GAAP) relating to the preparation of financial statements for interim periods. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States but which are not required for interim reporting purposes, have been condensed or omitted. See Note 7 for the reconciliation from U.S. GAAP to accounting principles generally accepted in Israel (Israeli GAAP).

These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2004, included in the Form 20-F for the year ended December 31, 2004.

The interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation. All such adjustments were of a normal recurring nature. Reclassifications have been made to comparative data in the balance sheet as of December 31, 2004 in order to conform to the current period presentation.

Comparative data in the condensed interim financial statements for the three and six months ended June 30, 2004, for the year ended December 31, 2004 and for the three months ended March 31, 2005 have been restated (see Notes 1B and 3).

Operating results for the three and six months ended June 30, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

B. On December 27, 2004, the Company reached an agreement with Koor Industries Ltd. ("Koor") to purchase all of Koor's holdings in Tadiran Communications Ltd. ("Tadiran Communications"), which represents approximately a 32% interest in Tadiran Communications, at a price of $37 per share. This purchase was to be made concurrently with Koor's purchase of approximately 9.8% of the Company's shares from Federmann Enterprises Ltd ("Federmann"). Tadiran Communications is an Israeli company, whose shares are traded on the Tel Aviv Stock Exchange. The purchase of the interest in Tadiran Communications was to have been made in two stages, subject to the terms agreed upon between the parties.

On April 18, 2005, the Company completed the first stage of the transaction to purchase shares of Tadiran Communications from Koor. The first stage of the transaction was completed after all the precedent conditions were met and all the required approvals for this stage were obtained.

According to the transaction agreements, Elbit Systems purchased from Koor, in this stage, approximately 13.7% of the outstanding shares of Tadiran in consideration for $62.5 million. In addition to the shares previously purchased by Elbit Systems in the stock market, it now holds approximately 21% of Tadirans' shares. The total consideration paid by the Company for the purchase of Tadiran shares from Koor and in the stock market amounted to approximately $90 million.

Note 1 - GENERAL (CONT.)

The excess of the amount paid for the Tadiran shares acquired until the end of the second quarter of 2005 over their book value is approximately $62 million. Based on a purchase price allocation analysis ("PPA") performed by independent advisors, this excess was attributed as follows:

	$M	Expected useful lives
In Process R&D ("IPR&D")	5.0	immediate write-off
Inventory	1.5	Up to a quarter
Other tangible assets and liabilities	0.5	5 years
Brand name	4.0	15 years
Customer base and backlog	20.0	2-12 years
Technology	12.0	10 years
Goodwill	19.0	Indefinite – subject to annual impairment test
	62.0	

As a result of the acquisition in the second quarter of 2005, the Company is able to execise significant influence in Tadiran. In accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock", the Company's interest in Tadiran, which was previously accounted for as available-for-sale securities, is accounted retroactively under the equity method of accounting ("step-by-step acquisition"). Implementing the step-by-step acquisition method resulted in a restatement of the Company's financial statements for all prior periods, in which the Company's investment in Tadiran Communications was accounted for as available-for-sale securities.

The following are the effects of the restatement:

(1) Consolidated balance sheet

	December 31, 2004		
	As reported	Effect by restatement	As restated
Other receivables and prepaid expenses	$ 52,335	$ 752	$ 53,087
Investment in affiliated companies and partnership	33,124	14,748	47,873
Available for sale securities	18,017	(18,017)	-
Accumulated other comprehensive loss	(3,346)	(1,396)	(4,742)
Retained earnings	156,387	(1,120)	155,267
Total shareholders' equity	434,700	(2,516)	432,184

(2) Consolidated statement of income

	Year ended December 31, 2004		
	As reported	Effect by restatement	As Restated
Equity in net earnings of affiliated companies and partnership	$ 7,765	$ (1,120)	$ 6,645
Net income	52,993	(1,120)	51,873
Basic net earnings per share	1.33	(0.03)	1.30
Diluted net earnings per share	1.29	(0.03)	1.26

Note 1 - GENERAL (CONT.)

C. On July 6, 2005, the Company reported that it signed an agreement with Koor to acquire all of Koor's 70% holdings in Elisra Electronic Systems Ltd. ("Elisra"), in consideration for $70 million to be paid in the form of cash. The parties also agreed on an additional contingent consideration as a result of future insurance proceeds relating to the fire at Elisra's plant in 2001. As part of the transaction, Koor may purchase Dekolink Wireless Ltd. from Elisra at an agreed upon price. Dekolink Wireless Ltd. is a start-up company engaged in the cellular networks area that is wholly-owned by Elisra. The acquisition agreement relating to Elisra is subject to receipt of the Company's shareholders approval as well as approvals from governmental authorities, including the Israel Antitrust Authority.

Concurrently with signing the agreement to acquire Koor's holdings in Elisra, the Company and Koor agreed to amend their agreements regarding the Company's purchase of Tadiran shares held by Koor. Pursuant to the amendment, the Company will accelerate the acquisition from Koor of approximately 5% of Tadiran's outstanding shares, out of a total of 18.2% of Tadiran outstanding shares that the Company agreed to acquire as part of the second stage of the aforementioned agreement. Upon completion of the acquisition of the 5% interest in Tadiran, the Company and Koor will have equal representation on Tadiran's board of directors, Joseph Ackerman, Elbit Systems President, will be appointed as Chairman of Tadiran's Board of Directors and the provisions of the shareholders' agreement relating to joint control in Tadiran will enter into effect.

The price to be paid by the Company for the Tadiran shares will be the price agreed upon in the original agreement with Koor signed on December 27, 2004.

The agreement for acquiring Koor's holdings in Elisra and the amendments regarding the acquisition of Koor's shares in Tadiran, were signed following the approval of the transactions by the Company's Audit Committee and Board of Directors, who obtained a fairness opinion from an independent appraiser regarding the consideration to be paid for the Elisra shares.

The purchase of the approximately 5% interest in Tadiran by Elbit Systems will take place following the approval of the Company's shareholders for the acquisition of Elisra and the amendments to the Tadiran acquisition agreements. Following the acquisition of the 5% interest in Tadiran, the Company will hold a total of approximately 26% of Tadiran's shares, including approximately 7% that were purchased on the stock market. Upon completion of the Elisra transaction, the Company will complete the purchase of Koor's remaining shares in Tadiran – approximately 13% - reaching a total of approximately a 39% interest in Tadiran based on the Company's current shareholdings.

Note 1 - GENERAL (CONT.)

D. In March 2005, the Company, through its wholly-owned subsidiary Cyclone Aviation Products Ltd. ("Cyclone"), acquired from Israel Military Industries Ltd. ("IMI") the assets and customer contracts related to the Aircraft Systems Division of IMI ("the Aircraft Division") in consideration for approximately $7 million, to be paid in cash (approximately $1 million out of which $318 was paid through balance sheet date) and assumed liabilities of approximately $6 million. The excess of the purchase price over the fair value of net tangible assets acquired in the amount of approximately $1,500 was allocated to customers' contracts to be amortized over an estimated period of four years.

The Aircraft Division manufactures weapon payloads and external fuel tanks for fighter aircrafts.

The financial results of the business acquired are included in the Company's consolidated financial statements from the date of acquisition.

Pro forma information in accordance with SFAS No. 141 has not been provided, since the revenues and net income of the Aircraft Division are not material in relation to the total consolidated revenues and net income of the Company.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

A. The significant accounting policies followed in the preparation of these statements are identical to those applied in preparation of the latest annual financial statements.

B. The accompanying financial statements have been prepared in U.S. dollars since the functional currency of the primary economic environment in which the operations of the Group (which includes Elbit Systems Ltd. and its subsidiaries) are conducted is the U.S. dollar.

Note 3 - STOCK-BASED COMPENSATION

As mentioned in Note 2X to the Company's annual financial statements, effective January 1, 2004, the Company adopted the fair value recognition provisions of SFAS 123. Under the modified prospective method of adoption selected by the Company under the provisions of SFAS No. 148, the fair value recognition provisions are applied from January 1, 2004 to all employee awards granted, modified or settled subsequent to January 1, 2004, and to previously granted awards that were not fully vested on the date of adoption. The aforementioned decision to adopt the fair value recognition provisions of SFAS 123 took place in December 2004. SFAS 123 fair value recognition provisions were adopted effective January 1, 2004 and the results of the first three quarters of 2004 were restated accordingly. The restatement reflects the change in stock-based compensation expense calculated under the intrinsic value based method as compared to the expense calculated under the fair value based method.

Note 3 - STOCK-BASED COMPENSATION (CONT.)

The following is the effect of the restatement of stock-based compensation expense on the financial statements for the three and six months ended June 30, 2004:

	Three months ended June 30, 2004		
	As reported	Effect by restatement	As restated
Gross profit	$ 58,518	$ 1,368	$ 59,886
Operating income	13,835	2,487	16,322
Net income	11,312	1,990	13,302
Basic net earnings per share	0.28	0.05	0.33
Diluted net earnings per share	0.28	0.05	0.33

	Six months ended June 30, 2004		
	As reported	Effect by restatement	As restated
Gross profit	$ 115,438	$ 1,040	$ 116,478
Operating income	29,669	1,891	31,560
Net income	24,039	1,515	25,554
Basic net earnings per share	0.61	0.03	0.64
Diluted net earnings per share	0.59	0.04	0.63

Note 4 - INVENTORIES, NET OF ADVANCES

	June 30, 2005 (Unaudited)	December 31, 2004 (*)
Cost of long-term contracts in progress	$ 309,308	$ 254,009
Raw materials	78,426	71,813
Advances to suppliers and subcontractors	27,549	21,164
	415,283	346,986
Less - Cost incurred on contracts in progress deducted from customer advances	34,512	14,533
	380,771	332,453
Less - Advances received from customers	77,104	75,776
Provision for losses	7,064	7,636
	$ 296,603	$ 249,041

* Derived from the Company's 2004 audited financial statements

Note 5 - RECENTLY ISSUED ACCOUNTING STANDARDS

A. In March 2005, the SEC released SEC Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB 107"). SAB 107 provides the SEC staff's position regarding the application of Statement 123R and contains interpretive guidance related to the interaction between Statement 123R and certain SEC rules and regulations and also provides the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. SAB 107 highlights the importance of disclosures made related to the accounting for share-based payment transactions. The Company is currently reviewing the effect of SAB 107; however, it does not believe that SAB 107 will have a material impact on its financial position, results of operations or cash flows.

B. In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154 ("FAS 154"), "Accounting Changes and Error Corrections" - a replacement of APB No. 20, Accounting Changes" and FAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". FAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable to do so. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company estimates that the adoption of FAS 154 will not have a significant impact on its results of operations, financial condition and cash flows.

C. FASB Statements No. 123 (revised 2004), "Share-based Payment" (FASB 123(R)) (See Note 2AA(3)) to the Company's annual financial statements for 2004, was to have been effective as of the beginning of the first interim or annual reporting period that commences after June 15, 2005 (July 1, 2005 for the Company); however, on April 14, 2005, the United States Securities and Exchange Commission ("SEC") delayed effectiveness of FAS 123(R) for companies with fiscal years ending December 31 (such as the Company) to January 1, 2006.

Note 6 - TAXES ON INCOME

On July 25, 2005, the Knesset (Israeli Parliament) approved the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among other provisions, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2006 - 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26% and in 2010 and thereafter - 25%. The Company estimates that the change in tax rate is not expected to have a material effect on the Company's financial position and results of operations in 2005.

Note 7 - RECONCILIATION TO ISRAELI GAAP

As described in Note 1, the Company prepares its financial statements in accordance with U.S. GAAP. See Note 26 to the 2004 annual financial statements for a description of the differences between U.S. GAAP and Israeli GAAP in respect to the Company. The effects of the differences between U.S. GAAP and Israeli GAAP on the Company's financial statements are detailed below.

A. Effect on net income

	Three months ended June 30,		Year ended December 31,
	2005	2004	2004
	(Unaudited)		(*)
Net income as reported according to U.S. GAAP	$ 23,599	$ 25,554	$ 51,873
Adjustments to Israeli GAAP	(3,004)	(1,907)	662
Net income according to Israeli GAAP	$ 20,595	$ 23,647	$ 52,535

B. Effect on shareholders' equity

	As reported	Adjustments	As per Israeli GAAP
As of June 30, 2005 (Unaudited)			
Shareholders' equity	$ 446,973	$ (17,143)	$ 429,830
As of December 31, 2004 (*)			
Shareholders' equity	$ 432,184	$ (12,004)	$ 420,180

* Derived from the Company's 2004 audited financial statements

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